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Today

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Unquote

After the Crash

Major Borrowers Might Shun Equities Markets

Current Volatility Could Send Governments and Corporations Back to the Banks

By JOHN J. DUFFY
London Bureau

LONDON — Among the many repercussions likely to flow from the crash in stock market prices, experts say, is a potentially major shift in the way governments and large corporations raise money.

The rout in the equity markets and the severe volatility in the bond and currency markets, finance experts say, will ultimately have an impact on the headlong trend toward securitization — the phenomenon of turning loans into securities that can be traded freely in the public markets.

With many sectors of the securities markets now effectively closed to all but the world's top-rated issuers, the market crisis may have the effect of turning many borrowers back to con-

ventional banking products such as loans.

"If you want floating-rate money today, where do you go?" asked Robert Russell, an associate director of County NatWest Investment Bank.

"You can't go to the equity market. You can't go to the floating-rate note market. You basically have got to go to a bank," he said.

A shift away from securities and toward bank credit products is likely to be more pronounced in the Euromarkets than in the U.S., experts say, large-

Boost in Loan Demand Seen
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ly because of the regulatory and structural differences between the two markets.

In the U.S., for example, the Glass-Steagall Act prevents banks from offering note issuance facilities, or NIFs, currently the most rapidly growing loan product in the Euromarkets. And structurally, the U.S. debt markets remain basically healthy while the Euro-bond market is struggling with severe problems brought about by currency volatility, illiquidity, and fierce competition. The problems have frightened away many borrowers.

"During the whole of this year we have seen a resurgence of interest in syndicated loans from people who have

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A VIEW FROM OUTSIDE

MARTIN MAYER

Musings from the Pit

LAST week in this column, it was noted sorrowfully that nobody at the Federal Reserve seemed to have read Bagehot. He wrote that in times of financial crisis, the central bank should not only make everyone liquid, but should also see that the recipients of that liquidity pay for it at a relatively uncomfortable price.

Trying not to make trouble, I did not argue that the excess funds the Fed was giving away would erode the exchange value of the dollar (which is what, more or less inevitably, happened), but that they would beat up the long bonds, a result that is still in our future.

Meanwhile, on Wednesday, we were treated to the highly unedifying spectacle of our central bank desperately pumping dollars into open-market operations with one hand, and desperately buying them back in the foreign exchange market with the other. This is not conducive to long-run confidence in the currency or the country.

Continued, it will make the deficit worse, because losses in the foreign exchange market will reduce the annual payment the Fed makes to the Treasury in return for having been given the seignorage in farm.

There is and always was a way out: which is to use the banks as — in E. Gerald Corrigan's nice phrase — conveyor belts for government policy. Instead of spreading out the liquidity through open-market operations and driving down interest

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Stock Drop Leaves Some Thrifts Sorry They Converted

By LINDA ELLIS

NEW YORK — The feeling might be mutual among recently converted thrift companies: It would have been better to remain a depositor-owned association than convert to a stock company in the year of a market crash.

Take the case at Goldome FSB, Buffalo. In July, the thrift sent the first solicitation for its stock conversion at \$8.50 to \$11.50 per share. It was undersubscribed, so Goldome shifted the range and went to market in August at \$7. The stock plunged 50%, to \$3.50, between the offering and last Tuesday

Market: Page 15 ➔

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A VIEW FROM OUTSIDE

Musings from the Pit

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rates, the Fed should have thrown open the discount window (as it did in the aftermath of the Penn Central collapse) and urged the banks to support their customers on the cuff, but at a price.

It's easy to run down borrowings later, and meanwhile the Fed could assume a lot of control over what the banks did with the money. In a time of crisis, people want to look to their government and, for a while at least, lifted eyebrows would have controlled even the most sophisticated of the banks' trading departments.

There's no shortage of crisis days ahead: The Fed still has time to change its procedures, if it has the will.

The problem, in part, is that leadership now requires a frank admission that the nation is going into a recession. The task is to make it as short and shallow as possible at a time when the normal macroeconomic tools have been rendered inoperative by our foolish accumulation of debt through the years of prosperity.

With some boldness from our trading partners, who will need another place to lend their money and sell their goods, and who have a large stake in our rapid recovery, it might be possible to use this recession as a time for improving the effective demand of the

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LDC debtors on the world economy.

If the Japanese were to take steps to ease the pressure on Brazil, for example, it would help us as well as the Brazilians. The money's there: We won't be borrowing so much internationally for a while. Stranger things have happened, as the song says, but I can't remember when.

From the point of view of the banks, the terrible thunderclouds of the last weeks do have some silver linings.

Deposits have flowed back to the safer intermediaries (how helpful it was that Comptroller of the Currency Robert L. Clarke could assure the public that banks are not involved in the stock market!).

The regulators will not have the chutzpah to bend the law for the purpose of inviting the commercial banks to join the investment banks in what will be a pretty capacious graveyard.

And securities that were supposed to be salable have turned out to be about as illiquid as stones. It will be a long time before anybody who thinks he may need the money some day buys a junk bond again.

This is a mixed blessing, of course, to the many banks and thrifts (some of them very large institutions, too) that stocked up on junk bonds because they needed yield and are now stuck with them in sickness as in health.

But on the longer view it does mean that more of the business that ought to be done by banks — because banks, if they take the trouble, can know the borrowers — will be done by banks once again.

The drive for securities powers is, of course, dead.

One of the most interesting comments made on Continental's troubles with First Options is that the bank had been dumb to put that \$625 million in as a loan, exceeding its legal lending limits, because the holding company could always have put it in as a capital infusion, which was perfectly legal. That states the case against permitting bank holding companies to own such things, far beyond my poor power to add or detract.

This was Drysdale again, of course: Bankers thought they were in a processing business, when really they were extending credit. The very bad behavior of Morgan stock in the downturn argues that at least some investors have been worried that something of the sort could happen at Euroclear.

The question to be answered in the coming months, in any event, is not whether the giant banks should have new securities powers, but whether some of the powers they have been awarded or have assumed in the last half-dozen years should now be specifically withdrawn. "Deregulation" will be, if it isn't already, a dead issue.

Even if Congress does not extend the moratorium, the regulators, even the fellows in those jobs today, will not have the chutzpah to bend the law for the purpose of inviting the commercial banks to join the investment banks in what will be a pretty capacious graveyard.

Indeed, after the experience of fourth quarter 1987 in London and Tokyo, it is by no means clear that the big

banks are going to be so eager to take part.

Since the worst destruction by far has been in the third-tier stocks of the Amex and the OTC market, I do hope that Congress will, however, consider allowing small banks — of less than \$500 million or so in footings — to underwrite and make markets in the securities of companies that qualify for Reg A treatment by the Securities and Exchange Commission.

These companies are the lifeblood of capitalism in the United States, and the Wall Street types who used to court their business will be gone.

But the money center banks and the big regionals had better stick to banking for a while. Assuming the loan losses are controllable, it will be a better business than it's been, anyway.

Among the miscreants of the last two weeks, Citibank stands out strongly. It was a very reluctant lender to the market.

It published a quarterly report among the more misleading of its species. "Earnings" were increased by a \$140 million deferred "tax credit," which refers to the taxes the bank won't have to pay in years to come on income that will be offset by expected write-offs on the loan portfolio.

Meanwhile, unbeknownst to the readers of the 10-K, Citibank has in fact paid these taxes to the IRS because, under the 1986 tax law, the famous addition to loan-loss reserves is not tax deductible.

A miracle of accountancy has made an increase in earnings out of what is at best a wash with negative implications — for the \$140 million paid to the IRS will be out of the earning assets, and the \$140 million "credit" can't earn anything because it isn't there. Then bankers wonder why people don't have "confidence" in the banks.

And despite the demands of public policy and the Fed that the bank increase its equity, Citicorp proclaimed and apparently indulged in a major buyback of its own stock. It's a long time between drinks, but there are those of us who remember from our reading that Charlie Mitchell did that in 1929, when it was National City Co. and National City Bank, not to very good effect.

Chairman John Reed told David Lascelles of *The Financial Times* that the company was paying \$45 a share for Citicorp stock, which he considered a grand bargain. Last I looked, the price was below that. How do we account for those losses in the next quarterly report? Do we put our own stock in the investment portfolio, where we can carry it at cost?

Stock buybacks should be made illegal, anyway: They diminish the equity base of the economy, and they are a form of market manipulation, pure and simple. They impact directly upon the earnings or wealth of the executives who order them. And most of these executives have stock options or own stock in the company, or have pension plans tied to the value of the stock.

In Citicorp's case, moreover, there is an additional element to be considered. Nobody has said more loudly that Brazil and Mexico must not use their exchange reserves to buy back their debt at a discount, because that would be cheating the banks and would make it impossible for banks to lend to them again.

Citicorp just sold \$1.2 billion of stock for \$57 a share. The people from whom they have now bought it back at \$45 — no small fraction of them in the underwriting community, which got snookered into increasing the issue at the last minute — may not be so happy to see Citicorp again.

LETTERS TO THE EDITOR

Private Insurance Could Guarantee Capital Level

To the Editor:

As you know, to some degree there is a forbearance program set forth between the Comptroller of the Currency and the other regulators. However, there have been very few regulations that I have ever agreed with, but I do think the following would be worth considering.

First and foremost, capital-to-assets for a bank is pretty well accepted at 6%. As we both know, some of the larger banks and banks in general have fallen to little more than 4%. However, other banks have capital as high as 10% and above.

I am now addressing a problem for a bank that would have 4% or 5% capital to assets. Why couldn't large insurance companies in this country get together and form a special company, since they have huge assets, and offer banks the following: an insurance policy that would insure a bank having a minimum of 6% capital to assets.

For instance, if the capital of a bank should fall to 5%, and the regulators came in and said that 5% was not adequate and they wanted 6%, then a bank could show them an insurance policy that guarantees 1% capital.

In turn, a bank would pay a premium to the insurance company for the policy. In order to qualify for this insurance, a bank would have to be run properly, maintain an adequate reserve for losses, and its delinquency would have to be within its peer group.

The bank would also be required to have a certified public accountant conduct annual audits. If banks would adhere to this, I think this would be a safe investment for insurance companies. At the same time, regulators could be more at ease knowing that banks would have an insurance policy that would guarantee and additional 1% capital, if the regulators felt this was needed.

We must get the private sector involved in various aspects of regulation and have the regulators serve in a reduced capacity. For instance, I believe the regulators should be concerned with the quality of loans, plus testing the quality of loans against our reserve for losses.

Several years ago an event occurred that was quite comical. A little woman examiner carried our stock ledger around with her for three full days and she held it very close to her body. Finally I asked her the purpose of carrying the stock ledger around with her, and she replied, "Quite frankly, I am checking on you because you purchased 10 shares of stock from someone and I want to see if the proper amount was paid for the stock!"

Only the government could spend three days on such a very small transaction. Eventually she found out that I had paid the proper price for the stock. This little woman examiner then walked away quite happy — which proves to a great degree that no regulator ever kept a bank from going under because the examiners really do not look at the proper things when they come in to do their specialized work.

We cannot cure the world, but I do think examiners should spend time on loan review and the private sector should be responsible for helping a bank maintain capital adequacy.

Abraham Lincoln once said that the government should never be involved in affairs that the private sector can do for itself. Let's get government out of some areas and get the private sector into some areas. This in itself will help reduce the federal deficit.

J. Knox McConnell
PresidentThe First National Bank of Keystone
Keystone, W. Va.

THRIFTS & MORTGAGES

Market Drop Leaves Some Thrifts Sorry They Changed Ownership

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as the stock market has been blindsided by historic losses.

"Most thrift stocks have gone down; we are no different," said a spokesman for Goldome.

A look at the recent behavior of thrift stocks that have been offered to the public this year, or that have been acquisition targets this fall, shows winners, losers, and issues that never made it to the starting gate. The latter are, in most cases, just as glad not to have their stock in the running.

The stock of Anchor Savings Bank, Hewlett, N.Y., was off 47.8% Tuesday from its first trade in February.

At Greater New York Savings Bank, New York, where the stock was off 36.8% since a June conversion, Philip A. Cimino, first vice president, investor relations, said he has nevertheless had only "a couple of calls" from stockholders. Mr. Cimino cited the market in general as responsible and said Greater New York is faring no worse than typical thrifts in New York State.

Heritage Federal Savings and Loan Association, Olympia, Wash., nearly made it to the post office with its offering circulars but decided early last week to hold back and hope for "some market stability," said Sandra Seagroves, its vice president and marketing director.

Planned Conversions Are Off

"Conversions in the pipeline now are all but dead," said John J. Lyons, managing principal of Lyons, Zomback & Ostrowski Inc., New York, a bank and thrift consulting firm. "The market for newly converted thrifts has been sliding dramatically since well before Oct. 19.

"Oct. 19 iced the cake," he said. "It is difficult, if not impossible, for thrifts to convert today, absent the smallest doing a purely community offering. Larger private investors and institutions have very little interest in thrift stocks."

On the brighter side, Cottage Savings Association, Madeira, Ohio, brought its initial public offering out at \$10. It traded Tuesday at \$15.50, a 55% jump since January. John L. Schinner, chief financial officer, cites good earnings. Ruth Myers, assistant vice president, said the thrift has had a few calls from stockholders concerned about the news from distant Wall Street and has advised them to hold on to their shares. Obviously, the new owners are listening.

The winners aren't sure why they are winning, anymore than the losers know why they are losing.

Anthony J. Calabrese, president of Washington Bancorp, Hoboken, N.J., parent of Washington Federal Savings Bank, has seen the stock move up a fraction from \$10.50 in the past two weeks.

"It could be our performance, which is great," he said. "Or it could be that we're in a prosperous area. Or it could be something else."

Acquisitions and mergers have been impacted by the market crash.

On Oct. 21, two days after the worst decline in the Dow Jones industrial average in history, stock in Fairhaven Savings Bank, Fairhaven, Mass., was selling at \$11. At midnight it was ac-

quired by Citizens Financial Group, Providence, R.I., for \$17 a share, making it the largest percentage gainer among all financial services stock for the week of Oct. 19-23.

Carteret Negotiations Ongoing

On the other hand, on Oct. 22, Home Group Inc., New York, said it wanted to renegotiate a lower price for Carteret Bancorp, Morristown, N.J. A \$22.50 share price was struck Aug. 4; last Friday Carteret stock closed at \$12.38. Negotiations are ongoing and several analysts said the whole deal may end up in court.

"Most acquisitions already arranged are being canceled," said Reid Nagle, president of SNL Securities, Hoboken, N.J. "A lot of new deals will arise, but at different plateaus and on different terms."

For a conversion in the pipeline — and there were 22 applications to the Federal Home Loan Bank Board in August and September — postponement and reissue of the stock offering means, by Bank Board regulation, that financial statements have to be updated and significant printing costs incurred again, Mr. Lyons said.

"Indeed, it will cost us hundreds of thousands of dollars, maybe \$300,000, mostly in printing costs, to go through with a postponement, but we are absolutely attempting to do so," said Joseph D. Gioffre, president, Greenwich Federal Savings and Loan Association, Greenwich, Conn.

Greenwich was set to convert Nov. 13. "The pricing was forced too low for us," Mr. Gioffre said. "Until we see stabilization in the market, we will not go public. Right now, though, we're trying to get the Bank Board to tell us what to do and they're uncertain."

"There is no stigma attached to slowing down or postponing," Mr. Lyons said, "but there is that loss of market momentum."

"Our timing is perfect — perfectly lousy," mourned Thomas W. Schini, president of First Federal Savings and Loan Association, La Crosse, Wis. "We re-evaluated our stock conversion Oct. 5 and decided to go ahead. We lowered our range and had a resolicitation period that ends this Friday [today] and it's too early to tell how it's going. We're relying on our investment banker, PaineWebber, to advise us on this as we go forward."

Austin J. Mulhern, president of Security Federal Savings and Loan Association, Cleveland, is holding a meeting with his board today to consider an extension of the thrift's planned stock offering and conversion. "We have to talk about the market. But if we knew what it would look like in 90 days or so, we could all retire," Mr. Mulhern said.

First Federal Savings Bank, Cleveland, said the recent stock market decline has forced several changes in the thrift's proposed initial public offering. The initial shares will be offered within an \$8 to \$10.50 range, down from \$10.20 to \$13.20. The stock subscription period is being extended from Nov. 7 through Nov. 16.

At Benj. Franklin Federal Savings and Loan Association, Portland, Ore., G. Dale Weight, chairman and chief executive officer, has watched his thrift's stock fall from \$7 to \$4.50 in the market carnage.

"Lot of jitters around right now, especially about interest-rate-sensitive stocks, and we were not spared," Mr. Weight said. "But we're recovering and our investors are not showing a lot of concern."

Toll on Stocks Of Converted Thrifts

	Offering Price	Price at 10/27	%Change
Goldome, Buffalo	7.00	3.50	-50.00%
Anchor Savings Bank, Hewlett, N.Y.	11.50	6.00	-47.83%
1st American Savings Bank, Canton, Ohio	6.88	3.62	-47.38%
Peoples Savings Bank of Monroe, Monroe, Mich.	11.00	6.50	-40.91%
Valley Federal Savings Bank, Terre Haute, Ind.	6.50	4.00	-38.46%
Fulton Federal Savings & Loan, Atlanta	7.00	4.38	-37.43%
Oriental Federal Savings Bank, Humacao, P.R.	11.50	7.25	-36.96%
Greater New York Savings Bank, New York	9.50	6.00	-36.84%
First Federal of Wooster, Wooster, Ohio	14.00	8.88	-36.57%
First Federal of East Hartford, Hartford, Conn.	10.00	6.50	-35.00%
First Federal Savings Bank, Puerto Rico, Santurce, P.R.	11.13	7.25	-34.83%
Eliot Savings Bank, Boston	11.88	7.88	-33.67%
Security Financial Group Inc., St. Cloud, Minn.	10.00	6.75	-32.50%
Yorkridge-Calvert Savings, Baltimore	10.00	6.75	-32.50%
Elmwood Federal Savings Bank, Media, Pa.	8.50	5.75	-32.35%
Onondaga Savings Bank, Onondaga, N.Y.	6.00	4.12	-31.33%
Parkvale Savings Association, Pittsburgh	8.00	5.50	-31.25%
Eagle Financial Corp., Torrington, Conn.	11.50	8.00	-30.43%
Rockingham Bancorp, Exeter, N.H.	11.50	8.00	-30.43%
Bristol Federal Savings Bank, Bristol, Conn.	11.50	8.00	-30.43%
Security Savings and Loan, Vineland, N.Y.	6.88	4.88	-29.07%
First Financial Savings Bank, Downingtown, Pa.	9.00	6.50	-27.78%
First S&L of Penns Grove, Penns Grove, N.J.	9.00	6.50	-27.78%
Washington Federal Savings-D.C., Washington, D.C.	10.00	7.25	-27.50%
Ameriana Savings Bank, New Castle, Ind.	10.00	7.25	-27.50%
First Federal of Salt Lake, Salt Lake City	6.50	4.75	-26.92%
Federated Financial Savings, Wauwatosa, Wis.	8.50	6.25	-26.47%
Standard Federal Bank, Troy, Mich.	8.25	6.12	-25.82%
Raleigh Federal Savings Bank, Raleigh, N.C.	9.25	6.88	-25.62%
Fayette Federal Savings Bank, Connersville, Ind.	8.00	6.00	-25.00%
Cardinal Federal Savings, Owensboro, Ky.	10.00	7.50	-25.00%
Fidelity Federal Savings Bank of Marion, Marion, Ind.	7.50	5.75	-23.33%
First Federal of Western Penn, Sharon, Pa.	9.50	7.50	-21.05%
Washington Federal Savings Bank, Hillsboro, Ore.	6.63	5.25	-20.75%
Germantown Savings Bank, Germantown, Pa.	9.75	7.75	-20.51%
Gateway Federal Savings, Cincinnati	9.00	7.25	-19.44%
Bell Savings Bank, Upper Darby, Pa.	12.00	9.75	-18.75%
Abraham Lincoln Savings Bank, Dresher, Pa.	12.00	9.75	-18.75%
Southold Savings Bank, Southold, N.Y.	12.00	9.88	-17.67%
Regional Federal Bancorp, New Albany, Ind.	10.00	8.25	-17.50%
Prospect Park Savings & Loan, Paterson, N.J.	13.80	11.50	-16.67%
Morsemere Financial Group, Fort Lee, N.J.	10.50	8.75	-16.67%
Montclair Savings Bank, Montclair, N.J.	15.00	12.50	-16.67%
Federal SB of New Britain, New Britain, Conn.	10.00	8.50	-15.00%
Citizens Savings Bank, Ithaca, N.Y.	9.75	8.50	-12.82%
Evansville Federal Savings, Evansville, Ind.	6.00	5.25	-12.50%
Inter Federal Savings Bank, Chattanooga, Tenn.	10.00	9.00	-10.00%
Cabarrus Savings Bank, Concord, N.C.	5.00	4.50	-10.00%
Indiana Federal Savings, Valparaiso, Ind.	10.00	9.00	-10.00%
Cumberland Federal Savings Bank, Louisville, Ky.	10.25	9.25	-9.76%
Cheshire Financial Corp., Keene, N.H.	14.38	13.25	-7.86%
Greencastle Federal SB, Greencastle, Ind.	10.00	9.25	-7.50%
Workmens Co-Operative Bank, Boston	11.50	10.75	-6.52%
United Savings of Greenwood, Greenwood, S.C.	8.75	8.25	-5.71%
Home Federal SB of Xenia, Xenia, Ohio	10.00	9.50	-5.00%
Brandywine Savings and Loan, Downingtown, Pa.	8.50	8.25	-2.94%
Brooklyn Savings Bank, Danielsens, Conn.	8.50	8.25	-2.94%
Seacoast Savings Bank, Dover, N.H.	10.00	9.75	-2.50%
First Federal SB Elizabethtown, Elizabethtown, K.Y.	12.50	12.25	-2.00%
First Financial Savings Association, Cincinnati	10.00	9.88	-1.20%
Railroadmen's Federal Savings, Indianapolis	10.00	10.00	0.00%
St. Paul Bancorp, Chicago	10.00	10.12	1.20%
C K Federal Savings Bank, Concord, N.C.	12.50	12.75	2.00%
Washington Bancorp, Hoboken, N.J.	10.50	10.75	2.38%
Raritan Bancorp, Raritan, N.J.	10.00	10.50	5.00%
Maryland Federal Savings, Hyattsville, Md.	8.50	9.00	5.88%
American Federal Savings Bank, Jacksonville, Fla.	7.00	7.50	7.14%
Home Federal Savings Bank, Charleston, S.C.	9.00	9.75	8.33%
New Bedford Institution, New Bedford, Mass.	14.38	16.12	12.10%
Peoples Federal SB Dekalb Co., Auburn, Ind.	10.00	11.25	12.50%
Western Carolina Savings, Valdese, N.C.	10.00	11.50	15.00%
First Federal SB Dickson, Dickson, Ind.	10.00	12.00	20.00%
Reisterstown Federal SB, Reisterstown, Md.	9.09	11.00	21.00%
Southstate Bank for Savings, Brockton, Mass.	11.00	14.12	28.36%
Bethel Bancorp, Bethel, Maine	10.00	13.00	30.00%
Homestead Savings Association, Middletown, Pa.	8.00	10.50	31.25%
Deerfield Federal Savings, Deerfield, Ill.	12.50	16.75	34.00%
Cottage Savings Association, Madeira, Ohio	10.00	15.50	55.00%

Source: SNL Securities, Hoboken, N.J.

Compiled by Francisco Garcia 3d

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